

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING

Docket No. RM2011-12

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(September 19, 2011)

The Postal Service hereby files its responses to questions 1-5 of Chairman's Information Request No. 1, issued on September 7, 2011. Each question is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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September 19, 2011

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1. [Proposal Six] The labor expense total for non-MODS facilities is apportioned to non-Management Operating Data System (MODS) cost pools based on proportions of In-Office Cost System (IOCS) tallies associated with each cost pool. IOCS question 18 responses are used to identify the non-MODS cost pools.

- a. Please provide a detailed discussion of how the IOCS questionnaire will be modified in order to collect additional information to implement the changes described in the proposal.
- b. If the IOCS questionnaire will not be modified, please discuss how the IOCS tallies that correspond to the new cost pools will be identified.
- c. The introduction of additional cost pools will affect the statistical reliability (precision) of the cost pools, and also the distribution of costs to products. Has the Postal Service attempted to measure changes in the reliability of the estimates after the addition of the new cost pools?

RESPONSE:

- a. The changes described in Proposal Six use pre-existing IOCS data, so no modifications to the IOCS questionnaire are required.
- b. In the currently accepted method, IOCS tallies are assigned to cost pools using the following SAS code, from program NONMOD1 (in Docket No.

ACR2010, USPS-FY10-7):

```
* .. establish cost pools based on q.19 and q.18;

IF F9806='6521' THEN POOL = 'Z BREAKS ' ;
ELSE IF Q18D01='A' THEN POOL='EXPRS IN';
ELSE IF Q18H01='A' THEN POOL='EXPRS IN';
ELSE IF Q18H01B='A' THEN POOL='EXPRS IN';
ELSE IF Q18H01='B' THEN POOL='REGISTRY';
ELSE IF Q18H04B='A' THEN POOL='REGISTRY';
ELSE IF Q18D01='D' THEN POOL='MANL ' ;
ELSE IF Q18D01BC='D' THEN POOL='MANL ' ;
ELSE IF Q18D01='E' THEN POOL='MANF ' ;
ELSE IF Q18D01BC='E' THEN POOL='MANF ' ;
ELSE IF Q18D01='C' THEN POOL='MANP ' ;
ELSE IF Q18D01='B' THEN POOL='MANP ' ;
ELSE IF 'A'<=Q18D01BC<='C' THEN POOL='MANP ' ;
ELSE IF Q18D01='F' THEN POOL='ALLIED ' ;
ELSE IF 'A'<=Q18B<='B' THEN POOL='ALLIED';
ELSE IF 'A'<=Q18E04<='E' THEN POOL='ALLIED';
ELSE IF 'A'<=Q18E04BC<='H' THEN POOL='ALLIED';
ELSE IF 'A'<=Q18E05<='C' THEN POOL='ALLIED';
ELSE IF 'E'<=Q18E05<='I' THEN POOL='ALLIED';
ELSE IF Q18B01='C' THEN POOL='AUTO/MEC';
ELSE IF Q18B = 'D' THEN POOL='AUTO/MEC';
ELSE IF Q18D01BC='F' THEN POOL='ALLIED ' ;
```

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ELSE POOL='MISC ';

The corresponding code to implement the Proposal Six changes is:

```
* .. establish cost pools based on q.19 and q.18;

IF F9806='6521' THEN POOL ='Z BREAKS ' ;
ELSE IF F260='20' THEN POOL='PO BOX ' ;
ELSE IF Q18B='G' OR Q18B01='F' THEN POOL='BULKACCP' ;
ELSE IF Q18B01='B' THEN POOL='CFSCMU ' ;
ELSE IF Q18D01='A' THEN POOL='EXPRS IN' ;
ELSE IF Q18H01='A' THEN POOL='EXPRS IN' ; *ACCTBLE ;
ELSE IF Q18H01B='A' THEN POOL='EXPRS IN' ; *ACCTBLE ;
ELSE IF Q18H01='B' THEN POOL='REGISTRY' ;
ELSE IF Q18H04B='A' THEN POOL='REGISTRY' ;
ELSE IF Q18E04='G' THEN POOL='BUSREPLY' ;
ELSE IF Q18H01='C' THEN POOL='BUSREPLY' ;
ELSE IF Q18H01B='C' THEN POOL='BUSREPLY' ;
ELSE IF 'B'<=Q18H04B<='F' THEN POOL='OTH ACCT' ;
ELSE IF 'A'<=Q18H04<='E' THEN POOL='OTH ACCT' ;
ELSE IF Q18D01='D' THEN POOL='MANL ' ;
ELSE IF Q18D01BC='D' THEN POOL='MANL ' ;
ELSE IF Q18D01='E' THEN POOL='MANF ' ;
ELSE IF Q18D01BC='E' THEN POOL='MANF ' ;
ELSE IF Q18D01='C' THEN POOL='MANP ' ;
ELSE IF Q18D01='B' THEN POOL='MANP ' ;
ELSE IF 'A'<=Q18D01BC<='C' THEN POOL='MANP ' ;
ELSE IF Q18D01='F' THEN POOL='ALLIED ' ;
ELSE IF 'A'<=Q18B<='B' THEN POOL='ALLIED' ;
ELSE IF 'A'<=Q18E04<='E' THEN POOL='ALLIED' ;
ELSE IF 'A'<=Q18E04BC<='H' THEN POOL='ALLIED' ;
ELSE IF 'A'<=Q18E05<='C' THEN POOL='ALLIED' ;
ELSE IF 'E'<=Q18E05<='I' THEN POOL='ALLIED' ;
ELSE IF Q18B01='C' THEN POOL='AUTO/MEC' ;
ELSE IF Q18B ='D' THEN POOL='AUTO/MEC' ;
ELSE IF Q18D01BC='F' THEN POOL='ALLIED ' ;
ELSE POOL='MISC ' ;
```

c. The Postal Service anticipated that the changes in Proposal Six would not materially change the statistical reliability of mail processing cost estimates.

Some distribution keys for mixed mail and/or not handling costs will be based on fewer tallies than in the current method, which would tend to increase sampling variability of the product cost estimates, other things equal.

However, the proportions of costs by product in the distribution keys may exhibit less variability when cost pools are more narrowly drawn; the net effect is ambiguous. The Postal Service also estimated coefficients of

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variation (CVs) for product costs using the Proposal Six cost pools. The CV analysis confirmed that there were no significant changes to the statistical reliability of product cost estimates under Proposal Six; as shown in the table below, the effect of Proposal Six is to slightly reduce the mean and median product cost CV. A version of this table showing Competitive Products is filed under seal as part of USPS-RM2011-12/NP3.

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**Table 1. FY2010 Mail Processing Volume-Variable Cost by Product
with Estimated Coefficients of Variation
Uses Proposal Six Non-MODS Cost Pool Assignments
(Costs are in thousands of dollars)**

Product	Cost Est.	Mean	Variance	Std Deviation	Proposal Six CV	FY2010 ACR CV	Pct. Change, CV
Market Dominant Products							
FIRST-CLASS MAIL							
SINGLE-PIECE LETTERS	2,242,269	2,242,125	478,753,667	21,880	1.0%	1.0%	0.6%
SINGLE-PIECE CARDS	109,416	109,254	23,144,178	4,811	4.4%	4.5%	-2.8%
PRESORT LETTERS	1,397,483	1,397,983	273,725,354	16,545	1.2%	1.2%	0.7%
PRESORT CARDS	59,419	59,445	13,935,794	3,733	6.3%	6.3%	0.2%
SINGLE-PIECE FLATS	608,325	607,945	130,675,657	11,431	1.9%	2.0%	-3.6%
PRESORT FLATS	149,840	150,077	31,513,742	5,614	3.7%	3.9%	-3.6%
TOTAL FLATS	758,165	758,021	156,945,273	12,528	1.7%	1.7%	-4.6%
SINGLE-PIECE PARCELS	376,931	376,532	80,640,988	8,980	2.4%	2.3%	2.7%
PRESORT PARCELS	7,385	7,436	1,671,752	1,293	17.5%	17.2%	2.1%
TOTAL PARCELS	384,315	383,968	82,021,133	9,057	2.4%	2.3%	2.4%
TOTAL FIRST-CLASS MAIL	4,951,067	4,950,795	845,765,707	29,082	0.6%	0.6%	-0.3%
STANDARD MAIL							
HIGH DENSITY & SATURATION LETTERS	70,197	70,228	18,300,144	4,278	6.1%	5.9%	2.5%
HIGH DENSITY & SATURATION FLATS & PARCELS	72,670	73,318	19,168,831	4,378	6.0%	6.2%	-2.6%
CARRIER ROUTE LETTERS	254,731	254,642	63,325,262	7,958	3.1%	3.2%	-2.0%
LETTERS	1,498,726	1,498,383	304,205,847	17,441	1.2%	1.1%	2.1%
FLATS NOT FLAT-MACHINABLES & PARCELS	1,049,356	1,050,294	192,666,547	13,880	1.3%	1.3%	-1.6%
PARCELS	275,350	274,998	61,318,126	7,831	2.8%	3.0%	-5.0%
TOTAL STANDARD MAIL	3,221,030	3,221,863	545,656,646	23,359	0.7%	0.7%	-1.7%

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Product	Cost Est.	Mean	Variance	Std Deviation	Proposal Six CV	FY2010 ACR CV	Pct. Change, CV
PERIODICALS							
IN COUNTY	22,473	22,321	4,523,643	2,127	9.5%	9.6%	-1.2%
OUTSIDE COUNTY	743,466	743,682	152,463,402	12,348	1.7%	1.7%	-0.2%
TOTAL PERIODICALS	765,939	766,004	156,335,524	12,503	1.6%	1.6%	0.3%
PACKAGE SERVICES							
SINGLE-PIECE PARCEL POST	191,372	191,276	41,833,780	6,468	3.4%	3.5%	-3.5%
BOUND PRINTED MATTER FLATS	44,663	44,724	10,248,953	3,201	7.2%	7.3%	-1.2%
BOUND PRINTED MATTER PARCELS	111,572	111,800	27,015,386	5,198	4.7%	4.5%	2.4%
MEDIA AND LIBRARY MAIL	135,885	135,709	28,091,971	5,300	3.9%	4.0%	-2.8%
TOTAL PACKAGE SERVICES - MARKET DOMINANT	483,491	483,509	95,702,385	9,783	2.0%	2.0%	0.1%
US POSTAL SERVICE	142,729	142,682	30,647,251	5,536	3.9%	3.8%	1.7%
FREE MAIL	25,869	25,848	5,405,540	2,325	9.0%	8.8%	1.6%
Ancillary & Special Services							
CERTIFIED	80,135	80,100	17,282,527	4,157	5.2%	5.1%	0.9%
COD	1,832	1,815	413,845	643	35.1%	37.3%	-6.0%
INSURANCE	1,377	1,369	193,743	440	32.0%	34.2%	-6.6%
REGISTRY	53,282	53,098	6,944,916	2,635	4.9%	5.2%	-5.6%
STAMPED ENVELOPES	0	0	0	0	N/A	N/A	N/A
STAMPED CARDS	0	0	0	0	N/A	N/A	N/A
OTHER ANCILLARY SERVICES	90,988	90,600	15,273,627	3,908	4.3%	4.6%	-6.2%
MONEY ORDERS	0	0	0	0	N/A	N/A	N/A
POST OFFICE BOX/CALLER SERVICE	368	370	36,077	190	51.7%	50.2%	3.0%
OTHER SPECIAL SERVICES	0	0	0	0	N/A	N/A	N/A
Total Competitive Products & International Mail	1,604,977	1,603,223	228,366,131	15,112	0.9%	0.9%	-0.6%
GRAND TOTAL	11,423,083	11,421,275	717,458,773	26,785	0.2%	0.2%	-2.5%

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2. [Proposal Six] Table 2a of the Excel file "Props.6&7.Mail.Proc.Impact.xls" that supports Proposal Six shows cost shifts from the ACR 2010 non-MODS cost pools to the proposed additional cost pools.

a. Based on this table, the entire amount for the new "D.PO BOX" cost pool is reassigned from four existing cost pools including ALLIED, MANF, MANL, and MANP. Please provide a discussion of the reallocation procedure including a supporting rationale and a worksheet illustrating the process.

b. Table 2a also shows that the values for the remaining new cost pools (*i.e.*, BULKACCP, BUSREPLY, CFS, and OTH ACCT) are reassigned from the current MICS cost pool. Please describe the reallocation approach and provide a worksheet illustrating the calculation.

RESPONSE:

a. The SAS code for the reassignment is provided in the response to question 1(b) of this ChIR. Tallies associated with the "PO BOX" cost pool have IOCS operation code 20 (field F260), which indicates tallies where the observed activity is distribution to Post Office Boxes. This criterion is applied prior to the assignment of tallies to the shape-related manual distribution cost pools.

For observations of manual distribution activities, the IOCS questionnaire first identifies a primary type of mail being worked (letters, flats, parcels, Express Mail, or Priority Mail) in question 18D1, and subsequently identifies the scheme (type of distribution operation) being performed in questions 18D2-18D3. Distribution of mail into Post Office Boxes is a type of incoming secondary scheme work identified in question 18D3. In the currently accepted method, Post Office Box distribution work is associated with a shape-related manual distribution cost pool (MANF, MANL, or MANP) based on question 18D1; if no type of mail is identified (Q18D01='F'), then the tally is assigned to the ALLIED cost pool. The table below shows a crosswalk from the current to the proposed cost pools.

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Table 2a. Crosswalk Showing Development of D.PO BOX Cost Pool

	Proposal Six Cost Pool Assignments					
	Sorting to P.O. Boxes (IOCS field F260='20')	All Other Activities				
Non-MODS Cost Pool, FY2010 ACR	D.PO BOX	ALLIED	MANF	MANL	MANP	Total
ALLIED	2,907	307,598				310,505
MANF	42,645		382,747			425,392
MANL	126,520			442,682		569,202
MANP	19,133				338,133	357,266
Total	191,206	307,598	382,747	442,682	338,133	1,662,364

As described in the proposal, the primary rationales for this change is to “distinguish shape-related work (e.g. casing letters and flats) from the mixed-shape work at box sections” and to “improve alignment between MODS and non-MODS mail processing cost pools for post offices.” (Petition at 15-16)

b. The SAS code for the reassignment is provided in the response to question 1(b) of this ChIR. In the currently accepted method, the MISC cost pool is defined residually, so tallies with mail processing IOCS operation codes that are not assigned to any other pool are assigned to MISC. The activities corresponding to the proposed BULKACCP, BUSREPLY, CFS, and OTH ACCT cost pools represent portions of the MISC cost pool as defined for the FY2010 ACR. Tallies not assigned to any of the new pools remain in MISC. The table below shows the relationship between the current MISC cost pool and the proposed cost pools.

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Table 2b. Development of Proposal Six Cost Pools from FY2010 ACR MISC

Cost Pool/Activity	Cost (\$000)
BULKACCP (Q18B='G' or Q18B01='F')	98,258
BUSREPLY (Q18E04='G' or Q18H01='C' or Q18H01B='C')	32,392
CFS (Q18B01='B')	11,607
OTH ACCT (Q18H04B in 'B'-'F' or Q18H04 in 'A'-'E')	163,197
All Other Activities (Proposal Six MISC Cost Pool)	211,865
Total (MISC Cost Pool, FY2010 ACR)	517,321

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3. [Proposal Six] To evaluate the impact of Proposal Six on specific products within a cost pool, please provide volume-variable cost by product for each of the following cost pools: ALLIED, MANF, MANL, MANP, MICS (sic), D.PO BOX, BULKACCP, BUSREPLY, CFS, and OTH ACCT (other accountable).

RESPONSE:

Please see the table in the Excel file (ChIR.1.Q.3.Attach.xls) attached to this response electronically for the requested costs by cost pool and product. Detailed results for competitive products are provided under seal as part of USPS-RM2011-12/NP3.

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4. [Proposal Six] Please explain any methodological changes from the way volume variable costs are calculated for the current MODS (sic) cost pools to the calculation of volume-variable costs for the new cost pools.

RESPONSE:

Assuming the question refers to the non-MODS cost pools (rather than MODS cost pools that are not affected by Proposal Six), there are no significant changes to the volume variable cost methodologies. Total volume-variable costs for non-MODS cost pools are unchanged from the currently accepted non-MODS methodology. As indicated in the Petition at page 16, the methods for distributing volume variable costs to products will follow existing methodologies.

The reassignment of some tallies from the ALLIED cost pool to the D.PO BOX cost pool, as shown in the response to question 2(a) to this ChIR, slightly changes the mixed mail methodology applicable to those tallies. Under Proposal Six, the mixed mail cost distribution methodology for the ALLIED pool would no longer apply to the tallies transferred from ALLIED to D.PO BOX. Since the tallies involved represent less than one percent of costs in the ALLIED pool, the effective change relative to current procedures for the ALLIED is insignificant.

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5. [Proposal Seven] Proposal Seven changes mixed mail distribution keys for MODS allied cost pools. It also affects the distribution keys for not-handling costs since the not-handling costs are distributed based on direct and distributed mail tallies. Worksheet "P7. F1 allied mixed mail impact" of the attached Excel file "Props.6&7.Mail.Proc.Impact.xls" illustrates the impact of Proposal Seven on product volume-variable costs for C/S 3.1 Inputs to the B workpapers.

- a. Please confirm that the measure of the impact of Proposal Seven shown in Excel file "Props6&7.Mail.Proc.Impact.xls" reflects any possible impact of the change in mixed mail distribution keys on not-handling costs.
- b. If not confirmed, please provide the cost impact of Proposal Seven on products incorporating both mixed mail and not-handling costs.

RESPONSE:

- a. Confirmed.
- b. Not applicable.